

Strategic Management Course


Oct.2005 - June 2006

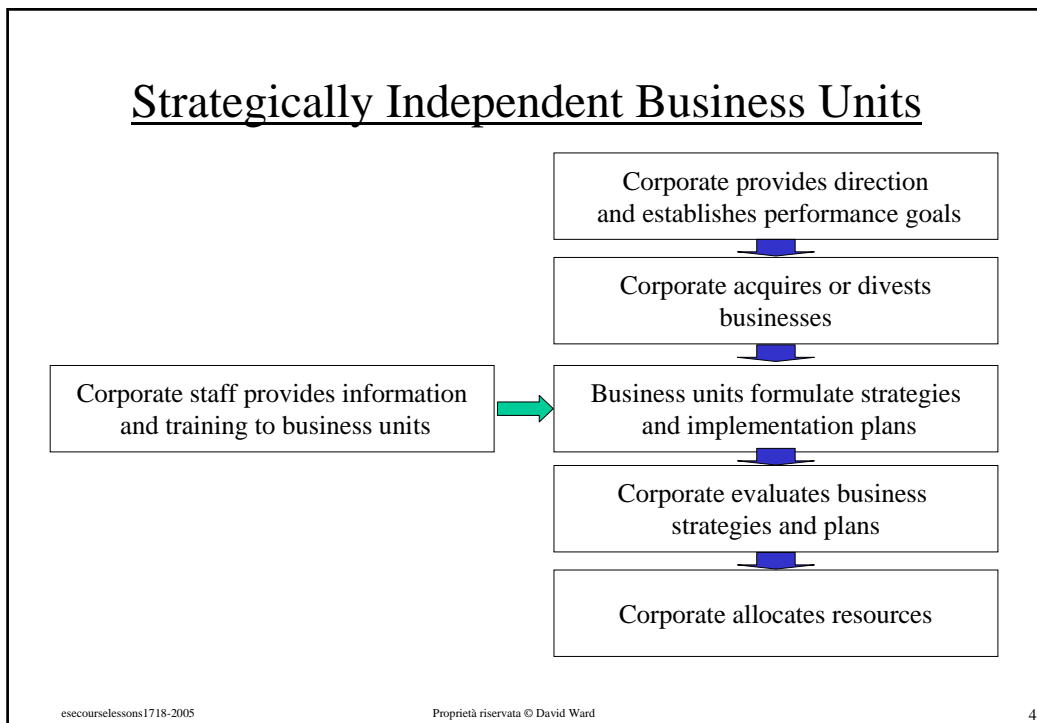
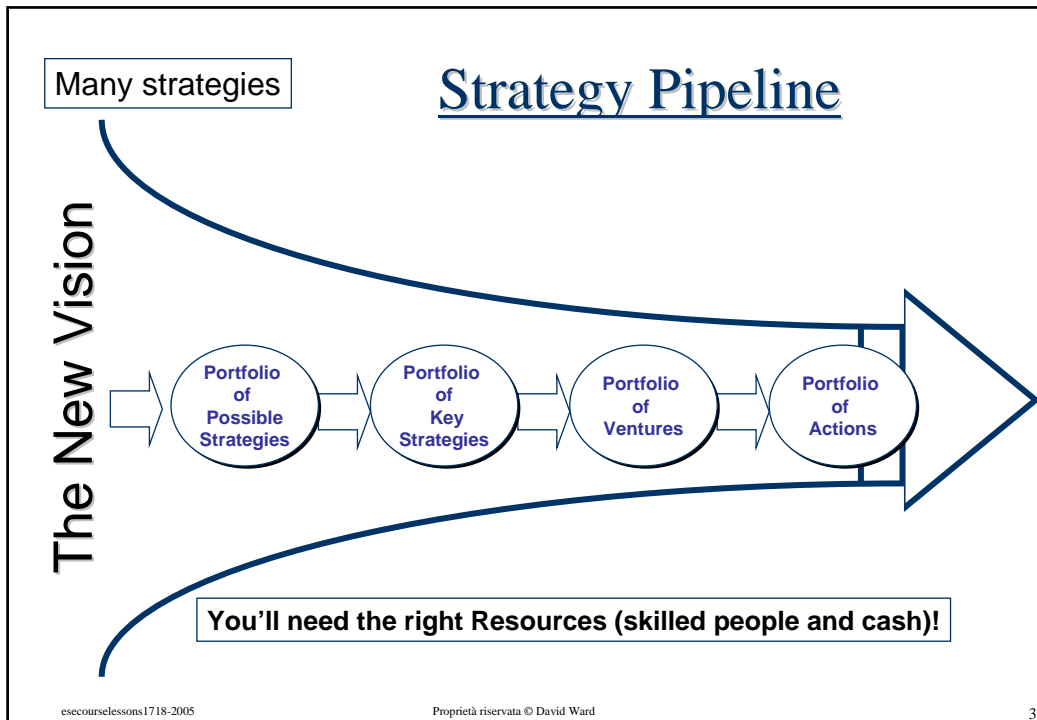
Lessons 17 & 18 : Formulation of Strategy and its Implementation

(Entry and the Advantage of Incumbency)

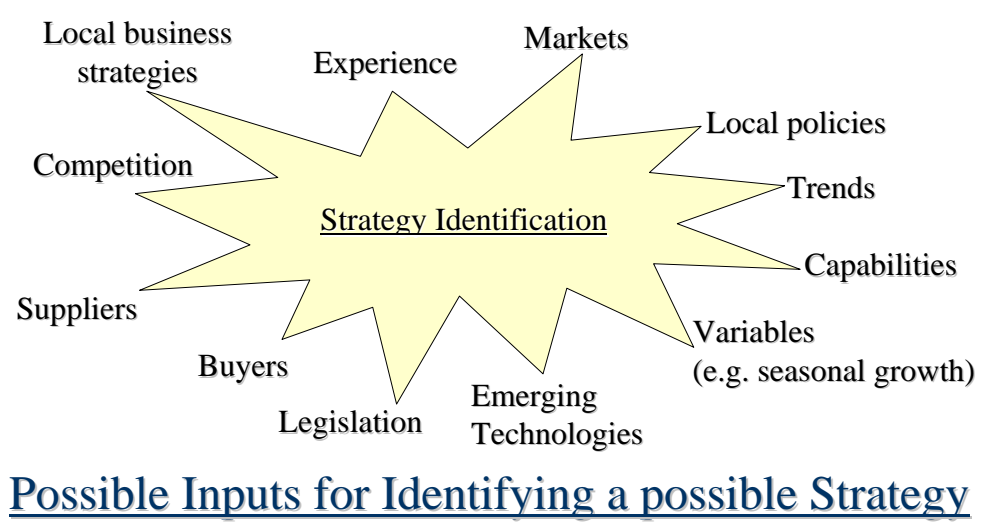
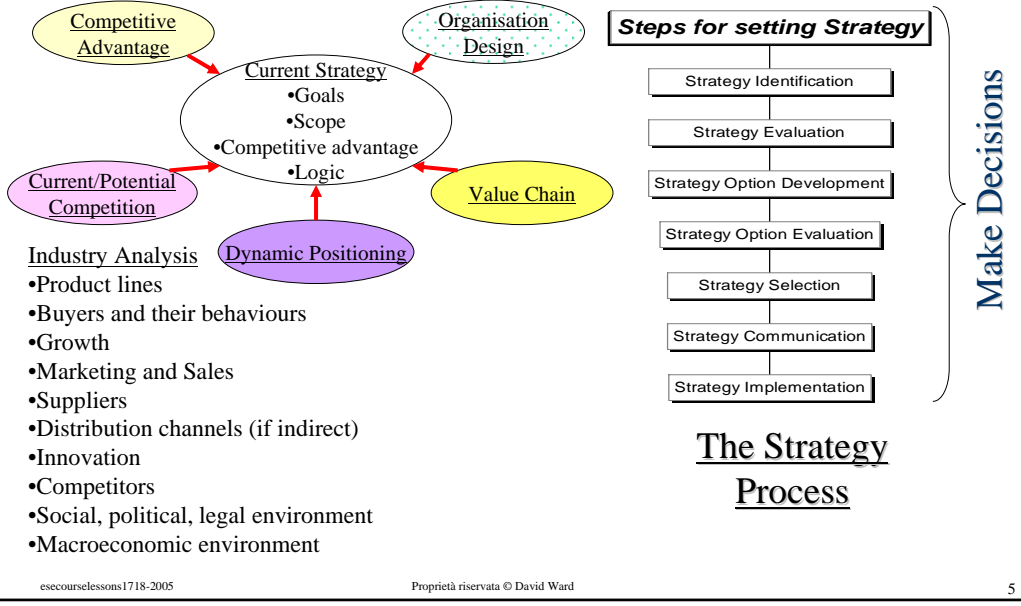
Prof. David Ward

Course Outline and Contents

- Introduction to Strategy and Strategic Management
- Business Strategy
- Competitive Advantage
- Internal Context: Organisation Design
- Market Organisation and Competitive Advantage
- External Context: Industry Analysis
- The Spectrum of Competition and Niche Markets
- Competition in Concentrated Markets
-  • Entry and the Advantage of Incumbency
- Creating and Capturing Value in the Value Chain
- Globalisation and Strategy
- Current trends in Strategic Management
- Strategic Management in a Changing Environment



Decisions about Developing and Evaluating Strategic Options



Inputs to Strategic Evaluation

| <u>Competitive Advantage</u> | <u>Organisation Design</u> | <u>Value Chain</u> | <u>Dynamic Positioning</u> | <u>Current-Potential Competition</u> |
|------------------------------|----------------------------|--------------------------|----------------------------|--------------------------------------|
| Position | ARC Analysis | Value Creation & Capture | Explorer and Exploiter | Industry Structure |
| Capabilities | Coordination | PIE | Learning (KM) | Competitive behaviour |
| Cost/Quality Frontier | Incentives | Vertical Architect | Industry Life Cycle | Differentiation |
| Sustainability | Strategic Alignment | | Scenario analysis | Barriers to Entry |

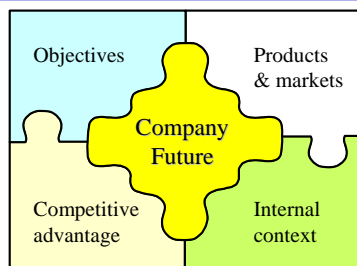
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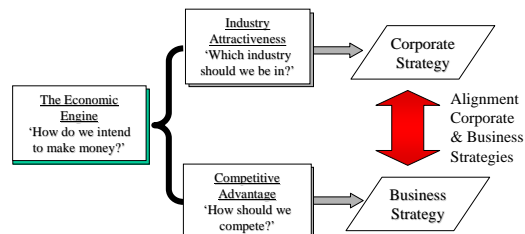
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Typical Planning Ingredients

- Vision and/or mission statement (both corporate, business, dept.)
- Strategy statement with long-term goals
- Overall picture of firm's internal and external contexts
- Trend monitoring
- Benchmarking
- Identification of areas of intervention and interest
- Outline or schematic of major objectives and targets
- Actions and approach
- Financial Measurements



Business Strategy Blocks



Corporate and Business Strategies

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Lessons 17 & 18 – Formulation of Strategy.....

- Back flashes of Lessons 15 & 16 and open questions
- Incumbent and Incumbency
- Corporate Strategy Processes
- Corporate Strategy for Strategically Interdependent Businesses
- Strategy selection
- Strategy communication and Implementation
- Wheel of Competitive Strategy
- Examples of Explicit Strategies
- Examples of Strategy Communication
- Report and Examination preparation

📖 This lesson was based on pages 215 to 238, 351 to 379 and 387-399 of the recommended 1° term textbook or pages 253 to 283, 425 to 461 and 471 to 487 in the Italian version of the textbook. Chapter 15 of the White text (pp.530-563) plus the case study of Haier (pp.716-721).

Definitions of Incumbency and Incumbent

- Incumbency : The period during which an official position is held.
- Incumbent: The holder of an official position
- Incumbent firm: An officially recognised company

Entry-Advantage of Incumbency

Strong Performance
draws attention
and inevitably competition.



Translates into...

“I want my share
of the cake”

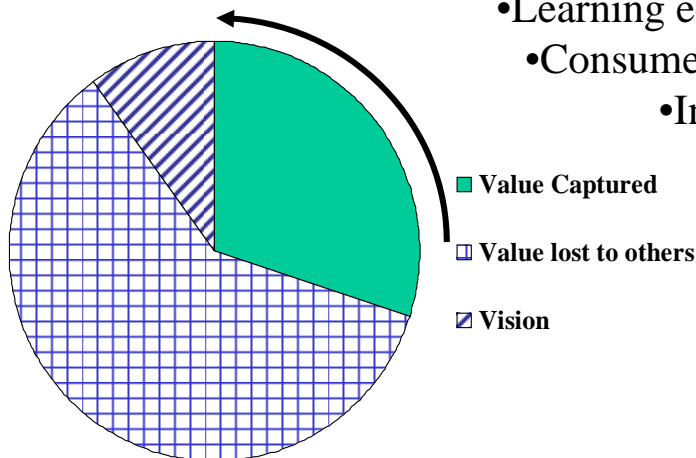
Entering a market

- Entry from other firms can spur strong resistance from incumbent firms e.g. tactics against ambush marketing at the Olympics, the rise of Galliani in Italian football
- Entry can therefore backfire for the entrants e.g. Toyota Lexus versus Mercedes, Pepsi vs. Coca Cola etc.
- However, it can actually push the success of the entrant e.g. Linux SW, StarOffice etc.

The difference is what you are offering to the consumer not just in the short-term but in the long term (the vision)

Types of Incumbency Advantage

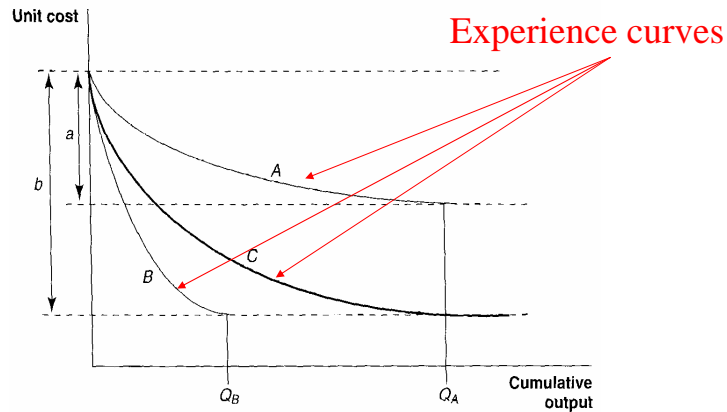
- Scale and Economies of Scale (handling fixed and variable costs effectively to produce more profit).



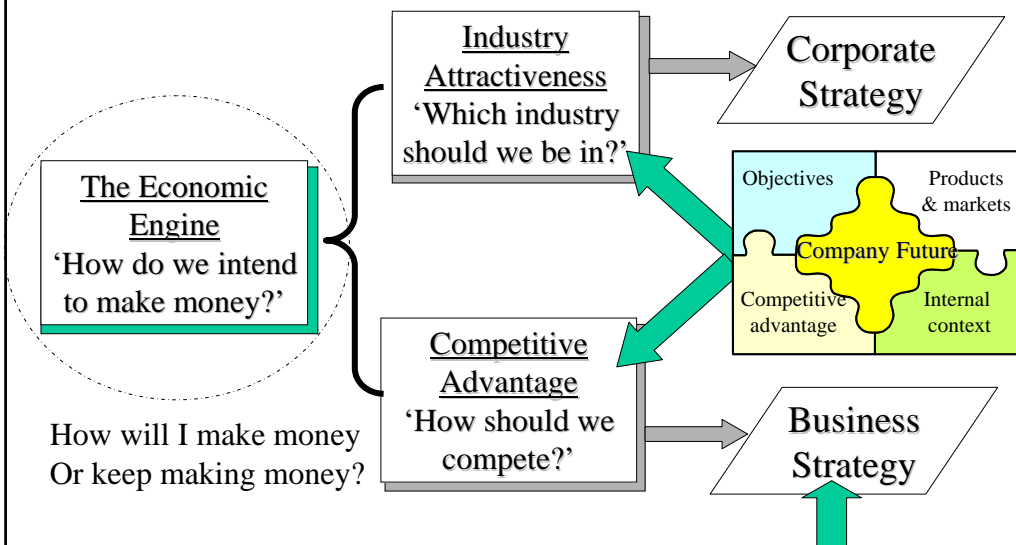
- Learning economies
- Consumer Loyalty
- Innovation
- TTM
- Etc.

Learning Economy

Learning economies are cost savings that come from experience (e.g. learning-by-doing). For example as an individual learns how to complete a certain task so the cycle time decreases, error falls, and precision increases. This translates into a cost advantage.



Attacking Business & Corporate Strategy



Attacks generally start at BSU level

....Keeping my Share of the Cake

- Legislation (Writing the rules of the game)
- Technology and Innovation (R & D & D)
- Knowing, and working with, the consumer (CRM)
- Strategic Alliances-Mergers
- Economies of scale
- Localisation
- Building the brand(s)
- Product ranges and range-extension
- Outsourcing and core business
-

Distinguishing features: (Core) Competencies

Distinctive competencies are the core competencies or strengths of a company. They allow a company to distinguish itself from the competition and represent the features of the firm. There are essentially two sources for competencies:

1. Resources

Are the inputs into a firm's production and/or services processes.

2. Capabilities

The ability of companies to assemble and coordinate their resources to provide lower costs or differentiated products.

Sustainable Competitive Advantage

Long-term
Sustainability

=

Successful
Strategy

+

Unique
Capabilities

Types of Competitive Strategies

Offensive Strategies

Defensive Strategies

Direct Attacks: price cutting etc
End-run offensives: searching for unoccupied or ignored markets.
First-to-market: gaining a particular advantageous position.
Acquisitions: acquisition of rivals

Multinational Diversification Strategy

Related Diversification

- Sharing e.g. sales forces

Unrelated Diversification

- Short term investments

When developing a multinational strategy the fundamental question is *how does one combine global-local solutions?*, this is called the global-local dilemma.

Multi-domestic strategy

Act locally, focus on local responsive



Local product platform

Transnational strategy

Act locally and combine global



Global product platform

International strategy

Compromise global & local



Global products & marketing platform

Regional strategy

Compromise global & regional

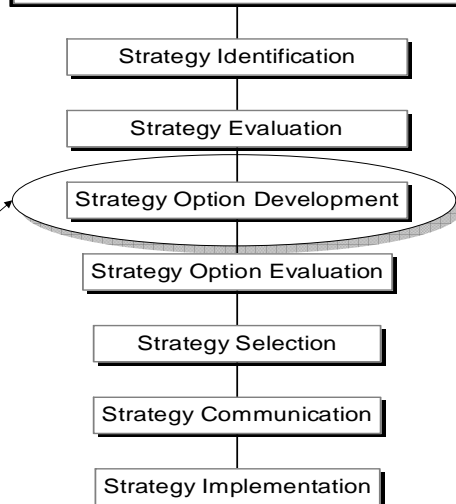


Regional product platform

Strategy Options

Strategy development is not just about brainstorming it is assessing all the options in front of you. This exercise often leads to prioritising your options. This is very convenient when you need to adjust or change your strategy.

Steps for setting Strategy



Strategy Option Development

The scope of developing strategy options is to adapt the strategy in the event that external conditions change. This is especially true for emerging industries that have essentially two uncertainties:

1. Technological uncertainty. Good examples are the evolution of electronic money, internet, internet and communication devices, human genome project etc.

2. Market uncertainty relating to the size and growth rates of the market thus making demand forecasting very difficult. Good examples are: Sony walkman, 3M's Post-its, BIC pens, Apple PCs etc.

Minimising and Managing Risks

- Cooperating with lead users meaning those end-consumers that will lead the industry or that the end-consumer trusts. Examples are beta versions of SW tested by developers, opinion leaders (film critics), sports personalities for sportswear, word-of-mouth etc.
- Limiting risk exposure by sharing the financial burden e.g. through joint ventures, strategic alliances, supplier resource allocation etc.
- Flexibility by building responsiveness and scalability: experimenting on a small scale or in clusters (e.g. selected countries).

'Taking the bull by the horns' by setting the standards/leading the pack

| | | | |
|------------|-------------------|---------|---------------|
| Microsoft | Windows | 3M | Post its |
| Intel | 86/Pentium series | Schott | Ceramic glass |
| 3Com | 56k MODEMS | Yahoo | Provider |
| Adobe | PDF | Pfizer | Viagra |
| Matsushita | VHS system | Du Pont | Teflon |

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Examples of Option Development

A strategic option implies capturing the vision of a firm's future role. Many companies tend to focus on restrictive options meaning that the strategy as a whole remains intact while the development concerns a facet (or facets) of the strategy, for example:

- More than 1 supplier for a specific component
- Multiple trade partners (e.g. Mediaworld, Expert, Trony)
- Project, product and patent portfolio (e.g. Drugs at Glaxo)
- Resource allocation (e.g. outsourcing engineering/design)
- Organisation design (e.g. as for joint ventures)
- Make vs. buy (for part or all of a machine/product e.g. IKEA)

A true strategic option is usually radical in nature e.g. in product development it might be technology-push instead of market-pull, or outsource everything instead doing everything in-house or produce in Poland instead of Italy.

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Some Fundamental Questions

(for option development and evaluation)

Consistency Tests approach

Internal Consistency

- Are the goals/objectives mutually achievable?
- Do the key operating policies address the goals?
- Do the key operating policies reinforce each other?

Environmental Fit (External context)

- Do the goals and policies exploit industry opportunities?
- Do the goals and policies deal with industry threats (including the risk of competitive response) to the degree possible with available resources?
- Does the timing of the goals and policies reflect the ability of the environment to absorb the actions?
- Are the goals and policies responsive to broader societal concerns?

Some Fundamental Questions

(for option development and evaluation)

Resource Fit

- Do the goals and policies match the resources available to the company (relative competitors) ?
- Does the timing of the goals and policies reflect the organisation's ability to change?

Communication and Implementation

- Are the goals well understood by the key implementers?
- Is there enough congruence between the goals and policies and the values of the key implementers to ensure commitment?
- Is there sufficient managerial capability to allow for effective implementation?

Internal
Consistency

Environmental
Fit

Resource
Fit

Communication
& Implementation

Other topics for Discussion

What is the Business doing now?

1. Identification: What is the implicit or explicit current strategy
2. Assumptions: What assumptions about the company's relative position, strengths and weaknesses, competitors, and industry trends must be made for the current strategy to make sense.

What is happening in the Environment?

1. Industry Analysis: What are the key factors for competitors success and the important industry opportunities and threats?
2. Competitor Analysis: What are the capabilities and limitations of existing and potential competitors, and their probable future moves?
3. Societal Analysis: What important governmental, social, and political factors will present opportunities or threats?
4. Strengths and Weaknesses: Given an analysis of industry and competitors, what are the company's strengths and weaknesses relative to present and future competitors?

Other topics for Discussion

What should the Business be doing?

1. Tests of Assumptions and Strategy: How do the assumptions embodied in the current strategy compare with the analysis of the environment? How does the strategy meet the consistency tests approach.
2. Strategic Alternatives: What are the feasible strategic alternatives given the industry/societal/competitor analyses? (does yr. current strategy already fit them?)
3. Strategic choice: Which alternatives best relates the company's situation to external opportunities and threats?

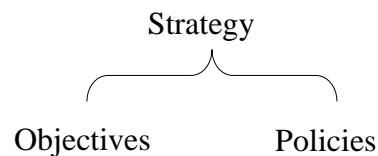
Footnote: Sometimes known as the multiple scenario approach (and pioneered by Shell) consists of establishing 3 to 4 distinct and internally consistent views of how the future may look 10 to 25 years ahead, or shorter for fast-moving industries e.g. telecommunications.

Wheel of Competitive Strategy

Porter defines the wheel of Competitive Strategy as follows:



In this wheel the rim of stands for the strategy boundary, the hub represents the objectives, the spokes are the policies and the slices the context.



Examples of Strategies

Gillette

Its corporate strategy is focused on continuous new product development and further global expansion. Key performance management drivers include the global rotation of people and incentives pegged to internal standards rather than industry benchmarks.

Glaxo Wellcome

Under a new corporate structure, it has re-evaluated the relationship between central strategy formulation and regional implementation. Devolving strategic autonomy to local units- within the broad framework of corporate strategy- is the company's preferred response.

Examples of Strategies

Royal Sun Alliance

A merger proved the ideal springboard for a global reorientation for these 300-year-old companies. Business units worldwide were assigned return on equity targets, and balanced scorecard measures were designed around developing global teamwork, succession planning, and customer service and satisfaction.

Schroders

The firm's historical continuity is matched by staff stability. One of its key performance management goals is to cultivate low staff turnover to ensure the communication and continuity of corporate strategy.

Strategy Communication



Strategy



Our corporate responsibility strategy is to engage, improve, be accountable. We constantly measure and review our performance in economic, environmental and social issues. We engage in stakeholder dialogue and form partnerships that serve the areas we want to improve in. We pursue focused and practical improvement programs in relevant organizational or geographical areas as part of business operations - this involves business planning, internal communications, training. We increase accountability to stakeholders through reporting, and informative internal and external communications activities.

What makes it unique is the way we do it. Based on the same approach that guides the rest of our activity - [the Nokia Way](#) - our corporate responsibility is developed through logical steps, with much of the work concentrated inside the company, much of the work built on existing programs, and many stages taken forward in parallel.

Supporting this company-wide work is a management steering group and corporate social responsibility resource, headed at board level by Mr Veli Sundbäck, Executive Vice President of Nokia Corporation. This team is driving corporate responsibility through the company-wide strategy process, supporting issue owners in building business cases for ethical improvement and implementation, and increasing accountability to both internal and external stakeholders. But it cannot be overstated that corporate responsibility is not a separate field handled by a few specialists, it is everybody's business.

Strategy Communication

The Nokia Way



The values and principles incorporated in the Nokia Way are at the very heart of our distinctive culture - and they unite our whole company, across the world.

Our values are

- Customer satisfaction
- Respect for the individual
- Achievement
- Continuous learning

We expect all our employees to behave according to these four values which inform every issue that we as a company approach - whether it's business, employment, the environment, or society at large.

In fact we believe that sharing these values and principles give us a lasting foundation for

- Business success
- Sound environmental stewardship
- Good corporate community involvement

Our aim is to create the opportunities for a fluid exchange of ideas - so that employees, customers, suppliers and partners can feel empowered to develop and deepen their relations.

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Open Networks Strategy



As the digitalization of content continues to grow in the IT world it presents increasingly new challenges to the industry at large. To facilitate the numerous new services enabled by digitalization is certain to require as much as a ten-fold increase in mobile bandwidth. This calls for a new level of efficiency in the communication networking infrastructure industry. IP technologies will enable new services, faster product development and lower cost, but IP alone is not enough.

Business Strategy



Our business objective is to strengthen our position as a leading systems and products provider. Our strategic intent, as the trusted brand, is to create personalized communication technology that enables people to shape their own mobile world.

We innovate technology to allow people to access Internet applications, devices and services instantly, irrespective of time and place. Achieving interoperability of network environments, terminals and mobile services is a key part of our objective.

We intend to capitalize on our leadership role by continuing to target and enter segments of the communications market that we believe will experience rapid growth or grow faster than the industry as a whole.

By expanding into these segments during the initial stages of their development, we have established Nokia as one of the world's leading players in wireless communications and significantly influenced the way in which voice and other services have been transferred to a wireless, mobile environment.

Organizational Design Mgr - NMP - Nokia Careers Database

Nokia Mobile Phones, the global leader in telecommunications, is seeking an individual to develop an organizational design strategy in alignment ...

[http://www.wdb.nokia.com/nokia/hr/recrsyst.nsf/SD/AF0C46E74377CF0AC2256B680005B708?](http://www.wdb.nokia.com/nokia/hr/recrsyst.nsf/SD/AF0C46E74377CF0AC2256B680005B708?OpenDocument)

OpenDocument - 5KB - Careers Database

Focus Areas



To achieve our business objective, our strategy focuses on: being the preferred provider of solutions for mobile communications; creating personalized communication technology; driving open mobile architecture enabling a non-fragmented global mobile services market; strengthening and leveraging Nokia, the trusted brand; and expanding our business and market position on a global basis.

Performance Management



In 1999, Nokia introduced a Performance Management system across the whole company called "Investing in People" (IIP). This system is aligned to the company strategy and planning process and involves twice yearly discussions between employees and their managers. The aim is to agree objectives, discuss performance and define development needs and solutions for the coming period.

Where an incentive plan applies, this is also agreed and the employee's overall performance is rated as an input to the annual salary increase.

Employees are encouraged to be active and to "own" their IIP. In this way employees understand what is expected from them, how their input supports the Nokia overall strategy, and how they are rewarded. They are also able to plan and manage their work schedules without the need for conventional management.

Job Rotation

All vacancies, with the exception of very senior positions, are advertised internally. We provide advice on career paths and the skills required in the positions, giving Nokia people the opportunity to manage their careers. Staff can either apply for positions which are catalogued by location and function, or they can register an open candidate profile indicating their areas of interest and personal profile.

The aim is to give as much information and choice to staff as possible on opportunities within Nokia.

Investor Relations BRITISH AIRWAYS

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Investor Update November 2002

Market Conditions
The overall market outlook remains unchanged.
More

Strategic Development
British Airways announced the start of the first ever scheduled airline service between the UK and Angola. The weekly service to the Angolan capital, Luanda began on November 1, 2002. Flights will depart from London's Heathrow airport on a Friday and return from Luanda's 4 de Fevereiro International airport on a Saturday. The services will be operated by a Boeing 777 aircraft with a three cabin configuration, First, Club World and World Traveller.
More

02 Results Presentation
5 November 2002 - 9am
More

02 Results Conference call
5 November 2002 - 2pm
More

Press Release
Europe urged to strike new air deal with USA
More

Next Event
02 Results
5 November 2002 - 7am
Stock Exchange Announcement
More

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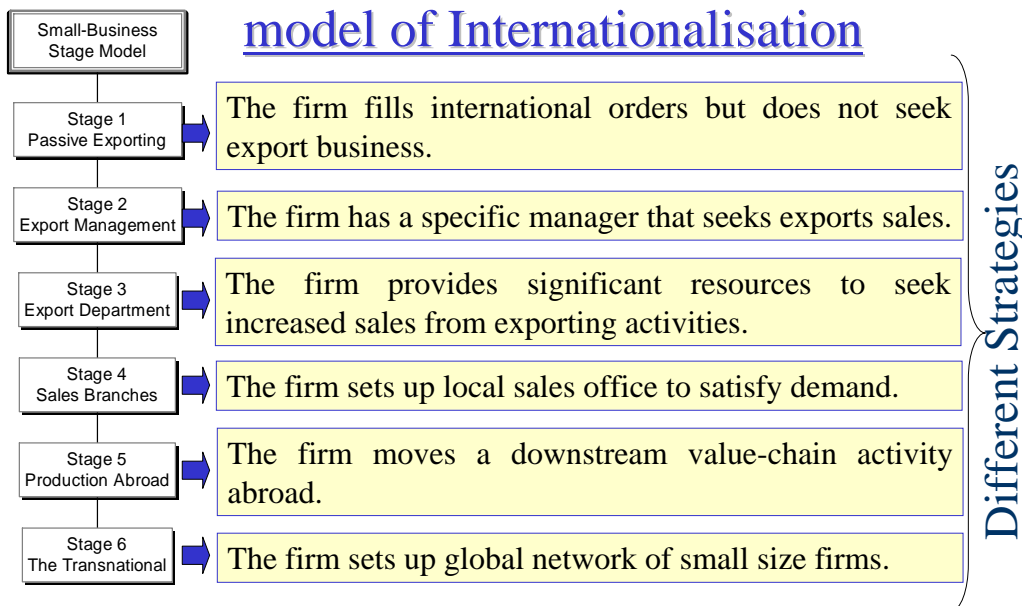
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Corporate performance management: Ensuring strategy implementation

Written in co-operation with PricewaterhouseCoopers, this report outlines the key challenges identified by top companies and enables you to set an agenda to tackle these in your company. The two main elements of this research include a worldwide survey of 170 CEOs, CFOs, COOs and senior vice-presidents, as well as detailed interviews with 25 companies. This paper establishes an integrated framework that examines performance management in the context of four streams: performance measures and targets, enterprise processes, people processes and information management and reporting; and then presents vital action steps to set you on the path to successful resolution of these issues.

See Economist Intelligence Unit website

Stages of the Small Business stage model of Internationalisation



Information Sources

Communication

<http://www.baiclass.panam.edu/mana3335Sp98/noflash/Textbook/Chapter08.html>

Economist Intelligence Unit

<http://store.eiu.com>

The Whitehouse

<http://www.whitehouse.gov/news/releases/2002/07/20020716.html>

References and Bibliography

<http://lisweb.curtin.edu.au/guides/handouts/harvard.html#exprint>

<http://lisweb.curtin.edu.au/guides/handouts/endnote.html#Styles>

Keywords of Lessons 17 & 18

- Corporate Strategy Processes
- Interdependent Businesses
- Strategy selection
- Communication
- Implementation
- Wheel of Competitive Strategy
- Option
- Development
- Consistency
- Risk
- Diversification
- Local
- Global
- Internationalisation
- Incumbent
- Incumbency
- Entry
- Counteractions
- Defensive
- Offensive
- Assessment
- Resource fit
- Environmental fit
- Corporate Performance Management
- Value capture
- Learning economies
- Experience curve
- Competencies